



AOR Update: Buy the Geopolitical Dip?

March 4, 2026

Key Takeaways

- ▶ History shows that investors should take advantage of the opportunity that appears to be emerging from the Iran conflict, with solid returns in the S&P 500 following historical “geopolitical dips.”
- ▶ At present, we believe U.S. recession risks remain contained, a view confirmed by the expansionary green signal emanating from the ClearBridge U.S. Recession Dashboard. While the Commodities indicator could deteriorate in the coming months, we expect current military action to have minimal impact on the overall dashboard signal.
- ▶ The pinch to American wallets from higher energy costs should be smaller than historical parallels would suggest, which should help insulate the U.S. economy better than was experienced during past oil spikes induced by geopolitical conflicts.

Geopolitical tensions in the Middle East escalated over the weekend, with the U.S. and Israel launching a series of military strikes against Iran. Volatility in financial markets has surged, with oil markets front and center on the risk that Iran will close the Strait of Hormuz, a key chokepoint for 20%–30% of global seaborne energy trade. In the following days, Brent crude rose over 10% from the week before to above \$80/barrel, while U.S. equities dropped a few percentage points before partially recovering and non-U.S. equities sold off more than 5%.¹

History shows that investors should take advantage of the opportunity that appears to be emerging, with solid returns in the S&P 500 Index following historical “geopolitical dips.” Specifically, U.S. equities have experienced positive returns on average over the 1-, 3-, and 6-month periods following past geopolitical flare-ups (Exhibit 1).

Some of the poorer returns in the historical track record have come during larger conflicts that metastasized into wars, but even there the record is mixed. In our view, broader economic conditions tend to supersede geopolitical risks for equity markets, and we note that some of the worst periods in the market following military escalations coincided with U.S. recessions in 1973, 1979 and 1990.

At present, we believe U.S. recession risks remain contained, a view confirmed by the expansionary green signal emanating from the ClearBridge U.S. Recession Dashboard. While the Commodities indicator could deteriorate in the coming months, we expect the current military action to have minimal impact on the overall dashboard signal. At present, news reports indicate that the conflict will remain limited and its timeframe should be measured in weeks, reducing the potential for more lasting economic impacts. There are no signal changes on the dashboard this month (Exhibit 2).

¹ Per the S&P 500 Index (U.S. equities) and the MSCI EAFE Index, MSCI Emerging Markets Index and the MSCI ACWI ex-US Index.

Exhibit 1: Buy the Geopolitical Dip?

Geopolitical Event	Date	S&P 500 Price Return (%)		
		1 Month	3 Months	6 Months
Korean War	June 1950	-10.0%	1.5%	4.9%
Vietnam War starts	Nov. 1955	7.3%	4.1%	13.9%
Suez Crisis	Oct. 1956	-4.4%	-3.6%	-1.4%
1958 Lebanon Crisis	July 1958	5.3%	12.1%	23.8%
Cuban Missile Crisis	Oct. 1962	5.4%	13.3%	21.1%
Indo-Pakistani War	Aug. 1965	2.6%	7.7%	8.7%
Six-Day War	June 1967	3.3%	6.5%	7.7%
Arab-Israeli War	Oct. 1973	-4.5%	-10.0%	-15.3%
Fall/Liberation of Saigon	April 1975	4.4%	1.8%	2.3%
Iran Hostage Crisis	Nov. 1979	4.2%	11.6%	3.0%
Soviet-Afghan War	Dec. 1979	5.4%	-8.0%	6.7%
Iran-Iraq War	Sept. 1980	1.2%	4.1%	2.8%
Multinational Force in Lebanon	Aug. 1982	4.9%	13.9%	27.4%
1986 U.S. Bombing of Libya	April 1986	-1.4%	-1.7%	0.5%
U.S. Invasion of Panama	Dec. 1989	-1.1%	-0.4%	4.7%
Gulf War	Aug. 1990	-8.2%	-11.3%	-2.4%
Croatian War	March 1991	1.4%	0.7%	3.7%
Bosnian War	April 1992	2.8%	2.0%	0.4%
Kosovo War	Feb. 1998	4.4%	4.6%	-2.1%
War in Afghanistan	Oct. 2001	4.1%	8.7%	4.8%
Iraq War	March 2003	2.0%	13.7%	18.3%
Russian Invasion of Ukraine	Feb. 2022	2.6%	-10.3%	-2.8%
Average		1.4%	2.8%	5.9%

Data as of June 30, 2025. Sources: FactSet, S&P. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Exhibit 2: U.S. Recession Dashboard

	Feb. 28, 2026	Dec. 31, 2025	Sept. 30, 2025	June 30, 2025	
Consumer	Housing Permits	-	●	●	↑
	Job Sentiment	×	×	×	×
	Jobless Claims	↑	↑	↑	↑
	Retail Sales	-	↑	↑	↑
	Wage Growth	↑	↑	↑	↑
Business Activity	Commodities	↑	↑	↑	↑
	ISM New Orders	↑	×	●	×
	Profit Margins	●	●	●	●
	Truck Shipments	↑	↑	↑	↑
Financial	Credit Spreads	↑	↑	↑	↑
	Money Supply	↑	↑	↑	↑
	Yield Curve	↑	↑	●	●
Overall Signal	↑	↑	↑	↑	

↑ Expansion
 ● Caution
 × Recession
 - Not Available

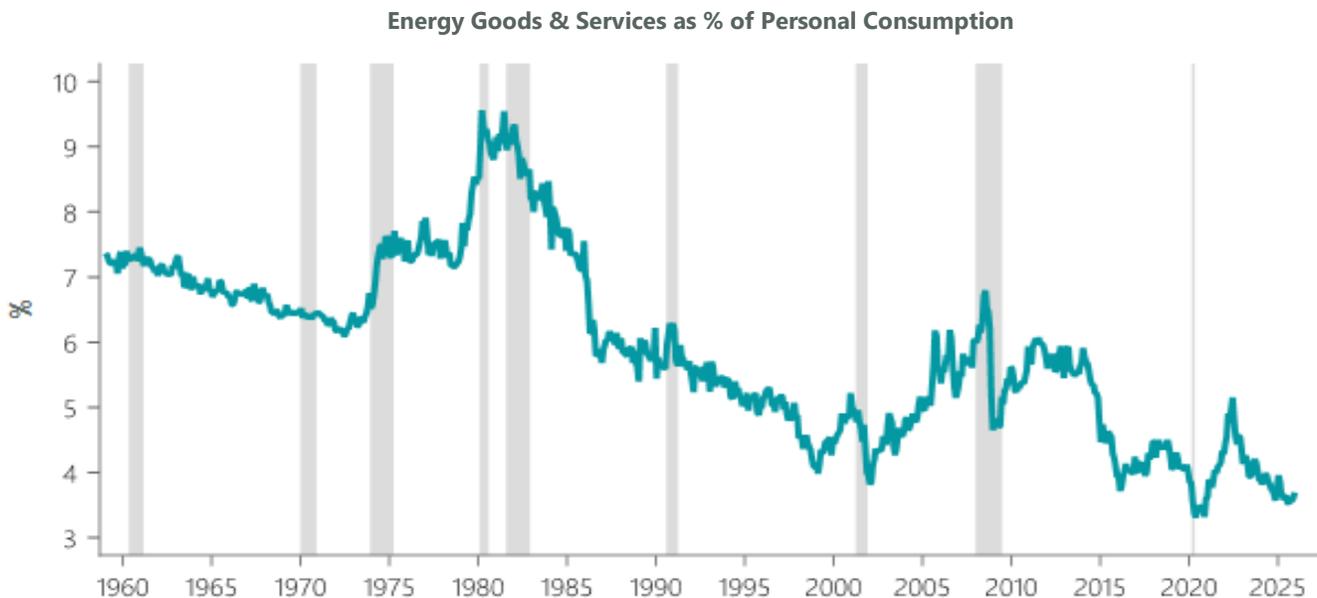
Data as of Feb. 28, 2026. Source: ClearBridge Investments.

For financial markets, the key consideration now is the price of oil, as that represents the most direct transmission mechanism from the current conflict to the global economy. The good news is that the U.S. is in a unique position relative to modern history because the country is now a net producer (not consumer) of energy products. As a result, higher oil prices present a mixed picture for U.S. economic growth, with a drag to consumption being at least partially offset by the benefits from increased job creation and profits in the energy sector.

This shift, from the U.S. being a net consumer of oil to net producer, is not the only key difference relative to history that will influence the economic impact from higher oil prices. Americans allocate a meaningfully smaller share of their (aggregate) wallets to energy goods and services today than at any point in history except for the years immediately following the COVID-19 pandemic. This has come following decades of both efficiency gains such as rising mile-per-gallon standards for autos as well as overall growth in wallet size.

Today, direct spending on energy goods and services accounts for less than 4% of consumption, well below the nearly 5% seen in February 2022 when Russia invaded Ukraine and even higher heading into both the Iraq War in 2003 and the Gulf War in 1990 (Exhibit 3). As a result, the pinch to American wallets from higher energy costs should be smaller than historical parallels would suggest, which should help insulate the U.S. economy better than was experienced during past oil spikes induced by geopolitical conflicts.

Exhibit 3: Energy Wallet Share



Sources: U.S. Bureau of Economic Analysis (BEA), NBER, Macrobond. Data as of Feb. 20, 2026. Gray shading marks recessionary periods.

Investors have also responded to developments in the Middle East by bidding up the U.S. dollar in a “safe-haven” trade, although U.S. Treasuries sold off. The 10-Year Treasury yield has risen over 10 bps since the end of February and is now back above 4% as a result. We believe that this unusual combination of higher Treasury yields alongside a strong dollar reflects the risk of higher inflation stemming from the pickup in energy prices. In fact, Fed Fund futures markets now price half an interest rate cut less in 2026, with the total number of expected rate cuts falling from 2.4 at the end of February to 1.9 today. This potentially explains both the stronger U.S. dollar (due to favorable interest rate differentials) and higher U.S. yields (the additional compensation needed due to higher inflation risk).

A pickup in inflation would be a fly in the ointment for the Fed, but we believe these fears may be overblown because the FOMC is likely to view an oil-price-driven pickup in inflation as a supply shock. Monetary policy tends

to be more effective in addressing demand as opposed to supply, as was experienced over the past several years during the last oil price surge and the supply chain bottlenecks during and following the pandemic.

Importantly, the Fed places more emphasis on “core” inflation measures that remove commodity price impacts because those tend to be more volatile and can obfuscate underlying price trends. The measures the Fed focuses on, such as core PCE, are likely to see a more muted impact from higher oil prices as a result. Based on this and our present understanding of the conflict and its likely impacts, we continue to believe that the Fed will cut rates in the second half of this year.

Ultimately, the events of the past few days have led to a relatively subtle shift in our economic outlook for 2026, which remains optimistic. We will update our views as new information emerges, but for now we continue to believe that, consistent with history, long-term investors will ultimately be rewarded for buying geopolitical dips.

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